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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000613

SIPDIS

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TAGS: ECON EFIN ETRD PGOV SY
SUBJECT: SARG NOT OFFSETTING LOSS OF OIL PRODUCTION,
DESPITE SARG CLAIMS

REF: A. DAMASCUS 0111
¶B. DAMASCUS 0501

Classified By: CDA WILLIAM ROEBUCK FOR REASONS 1.4 B/D

¶1. (C) SUMMARY: Syria has long depended on oil production to account for a significant portion of its GDP, but with oil exports declining, Syria needs to generate new sources of growth and income. In March 2007, the SARG significantly revised prior year macroeconomic numbers to support claims that Syria is generating the required growth - largely through an upswing in non-oil exports. The recent revisions, however, more likely reflect notoriously inaccurate Syrian financial statistics and a SARG habit of manipulating its economic data rather than any sudden economic surge. While non-oil exports are increasing, they are not increasing at a sufficient rate to offset decreasing oil exports, or possibly even burgeoning imports - undermining SARG claims of a positive current account balance. We suspect the SARG published the new growth figures - suggesting Syria is overcoming the challenge of decreasing oil production - to soften possible criticism of its delay of core IMF-recommended reforms. End Summary.

¶2. (U) CHALLENGE OF DECLINING OIL REVENUE: Syria has long depended on oil production to account for a significant portion of its GDP. With oil exports declining, however, Syria needs to generate new sources of growth and income) especially in the face of increasing public expenditures (subsidies) and burgeoning imports (ref A). The July 2006 IMF Article IV Consultation for Syria recognized this challenge and recommended Syria make fiscal and structural adjustments to alleviate the adverse mid-term economic implications caused by declining oil production. The core IMF recommendations included: introducing a value-added tax (VAT), reducing subsidies, and improving the non-oil budget balance. The SARG has yet to implement the first two recommendations. The EU is working with the SARG to develop a VAT structure, but Abdullah al-Dardari, Deputy Prime Minister for Economic Affairs, recently announced that the SARG is delaying the introduction of the VAT to "better prepare the environment for its implementation." The SARG has also not moved forward on much-needed subsidy reductions - although there are rumors this may occur later in the year (ref B). A recent SARG backward revision of macroeconomic data for 2004 and 2005, however, indicates that Syria is making significant progress on the third recommendation - improving overall growth by improving the non-oil budget balance.

¶3. (U) SARG CLAIMS INCREASED GROWTH AND NON-OIL EXPORTS: In

March 2007, the SARG revised its growth rate and trade numbers for 2004 and 2005. According to the revised figures, the GDP growth rate for 2004 was 8.6 percent, a significant increase from the previous estimate of 4.8 percent. SARG officials have attributed this revision to better statistical data, a greater willingness of exporters to declare currency, and a 16 percent increase in consumption, both from the local population and a surge of Iraqi refugees. According to the new SARG data exports are now reported at USD 7.15 billion in 2004 and USD 8.73 billion in 2005, up from USD 5.17 and USD 6.55 respectively. This means exports increased by 31 percent in 2004 and 22 percent in 2005. Most importantly, however, these revisions significantly reduce the ratio of oil exports to total growth, with oil exports accounting for only 39 percent of all exports in 2004 and only 42 percent of all exports in 2005 (down from 55 and 58 percent respectively). These new figures also mean that the current account reflects a positive balance of USD 584 million for 2004 and USD 302 million in 2005, instead of deficits of USD 613 million in 2004 and USD 1.1 billion in 2005 as previously reported.

¶4. (C) SARG NUMBERS QUESTIONABLE: When asked about the recent statistical revisions, Syrian businessmen and local economists are quick to assert these figures should be viewed with a high degree of skepticism. The validity of SARG macroeconomic figures) usually produced by the Central Bank and Central Bureau of Statistics (CBoS) - has long been called into question. Local economists argue that inaccuracies are a reflection of the government's lack of capacity in gathering data) made more difficult by the large Syrian informal sector - and also reflect a long history of manipulating numbers to reflect positive outcomes.

The most recent revisions have encountered enough skepticism among the business community that the SARG felt compelled to defend them publicly. At a May 2007 conference for expatriates, Abdullah al-Dardari, Deputy Prime Minister for Economic Affairs asserted that contrary to the voices of skeptics, SARG macroeconomic numbers were accurate. The head of the Syrian CBoS has also given several public interviews defending the figures and claiming the CBoS operates independently. He admitted, however, that the CBoS faces a lack of human resources, and blamed faulty data on state institutions and the private sector, which he claimed had a culture of hiding numbers.

¶5. (C) SARG OVERESTIMATING GROWTH RATES: While local economists and international experts are skeptical of the SARG's numbers, they do agree that the SARG is experiencing positive growth. There are large variances, however, in growth rate figures. The SARG estimates real GDP growth of 5.2 percent in 2006 (7 percent for non-oil growth). The SARG claims growth is increasing - despite the decline in oil production - because of factors including: increasing domestic consumption, a 12 percent growth rate in manufacturing in 2006, and an increase in non-oil exports. Outside estimates, however, are much more modest. The April 2007 IMF Economic Outlook report estimates a GDP growth rate of only 3 percent (Note: Syrian economic figures also vary widely among international institutions, likely due to their partial reliance on SARG data).

¶6. (C) SARG MANIPULATING TRADE NUMBERS TO APPEAR LESS DEPENDENT ON OIL: The SARG estimates that exports reached USD 10.1 billion for 2006 and claim that oil exports only accounted for 35 percent of total exports. Independent sources agree that the SARG had previously undervalued non-oil exports, especially textile exports to Europe and Iraq. Nevertheless, they strongly disagree with the SARG's decreased ratio of oil to total exports, arguing that growth in other sectors has not been able to keep up with the reduction. They assess that the SARG is simply trying to portray the economy as less dependent on oil than it actually is.

¶7. (C) SARG FACES INCREASING TRADE DEFICIT: Further proof of this view is found in Syria's increasing trade deficit. Independent sources discount SARG assertions that the trade deficit decreased by two-thirds last year, from USD 1.5 billion in 2005 to USD 500 million in 2006. These independent sources argue that Syria is facing a growing trade deficit, and that the SARG is manipulating trade figures by keeping data about imports artificially low. These same independent sources also label as dubious SARG assertions that imports were only USD 502 billion in 2005 and USD 531 billion in 2006, arguing that real imports are significantly higher, and that import growth is outpacing export growth. They attribute the burgeoning imports to the implementation of the Greater Arab Free Trade Agreement, a reduction in customs duties, and a significant increase in Syrian consumption of imported luxury items that had been previously forbidden and can now be legally imported.

¶8. (C) COMMENT: Syria's economy continues on a moderately upward trend, but the recent revision of trade figures is more likely the result of a SARG habit of manipulating economic statistics in its favor than any sudden surge in economic vitality. We suspect the SARG published the new growth figures - suggesting Syria is overcoming the challenge of decreasing oil production - to soften possible criticism of its delay of core IMF-recommended reforms. Regardless of SARG propaganda, however, non-oil exports are not increasing at sufficient rates to offset declining oil production or to balance booming imports. Additionally, total growth continues to be undermined by large public expenditure outlays - namely diesel subsidies. Consequently, Syria faces both a growing trade and budget deficit over the next few years. The SARG's implementation of core IMF-recommended reforms remains critical if the country is to successfully come to grips with becoming a net importer of oil, although it remains to be seen whether the SARG can slough off more than 50 years of Baathist ideology and really start to walk-away from the ramshackle social compact that embodies it in Syria. We predict a lot more data manipulation and delays before implementation of a VAT tax and a substantial subsidies reduction.
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